



DEPARTMENT OF HUMAN RESOURCE MANAGEMENT

REPORT ON AUDIT FOR YEAR ENDED JUNE 30, 2020

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Department of Human Resource Management (Human Resource Management) for the fiscal year ended June 30, 2020, found:

- proper recording and reporting of all transactions, in all material respects, related to the Health Insurance Fund, the Local Choice Health Fund, the Line of Duty Act Fund, and the Workers' Compensation Fund;
- no matters involving internal control and its operations necessary to bring to management's attention;
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- adequate corrective action with respect to audit findings reported in the prior year.

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AGENCY HIGHLIGHTS

The Department of Human Resource Management (Human Resource Management) administers the Commonwealth's Personnel Act, health insurance plans for state and local employees, health benefits plans for the Virginia Line of Duty Act, and the workers' compensation program. Human Resource Management's responsibilities include providing expertise in the areas of compensation, equal employment compliance, health benefits, and human resources policy and training. Human Resource Management is also the Commonwealth's central source for information about the Commonwealth's employment work force and provides a listing of state employment opportunities.

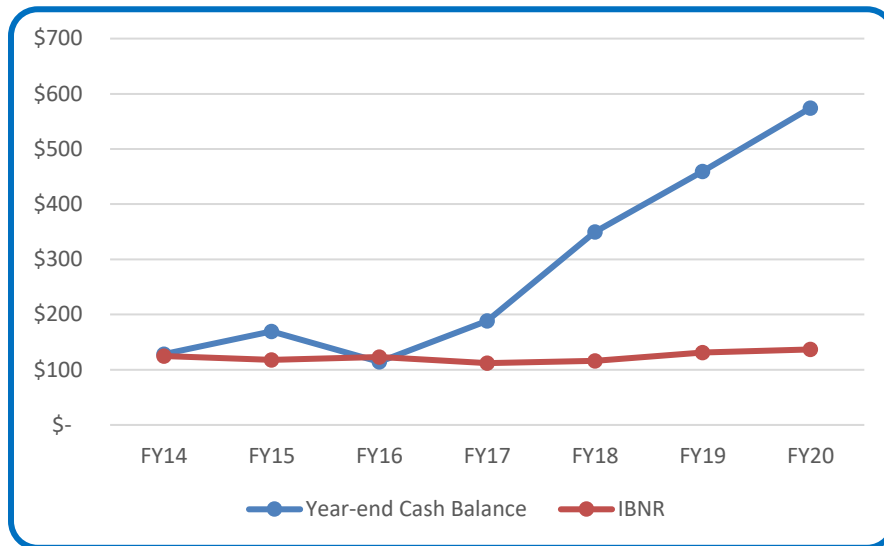
The Contracts and Finance service area within Human Resource Management manages all accounting, finance, and procurement activities for the agency. Contracts and Finance also provides accounting services for the Health Benefits Services and the Workers' Compensation service areas within Human Resource Management. Contracts and Finance contracts with actuaries to perform annual valuations for the Health Insurance Fund, the Local Choice Health Care Fund, the Line of Duty Act Fund, and the Workers' Compensation Fund. The actuarial valuations include an estimate of the incurred but not reported (IBNR) claims for each fund. The IBNR represents the amount owed for valid claims that have not yet been reported as of the fiscal year-end, and is used in the preparation of the Commonwealth's Comprehensive Annual Financial Report.

Health Insurance Fund

Health Benefits Services administers the comprehensive health benefits and long-term care programs for state employees, state retirees, and their dependents. Human Resource Management contracts with Anthem Blue Cross and Blue Shield to serve as the administrator for the Commonwealth's statewide standard preferred provider organization (PPO) health plan. Additionally, Human Resource Management contracts with Kaiser Foundation Health Plan of the Mid-Atlantic States and Optima Health Vantage to administer the consumer driven health plans. AON Consulting, Inc. provides services to evaluate the actuarial liabilities and reserve requirements of the self-funded health benefits program. As shown in Chart 1 below, premium revenue has exceeded claims expenses for each of the past four fiscal years, resulting in a cash balance of \$574.4 million at June 30, 2020. Due to the growing cash balance in the Health Insurance Fund, Chapter 854 of the 2019 Acts of Assembly included a health insurance premium holiday for the two pay periods in October 2019 in which state agencies and institutions of higher education paid no health insurance premiums. In addition, Chapter 56 of the 2020 Acts of Assembly includes a health insurance premium holiday for the two pay periods in December 2020.

State Employee Health Insurance Fund (\$ in millions)

Chart 1

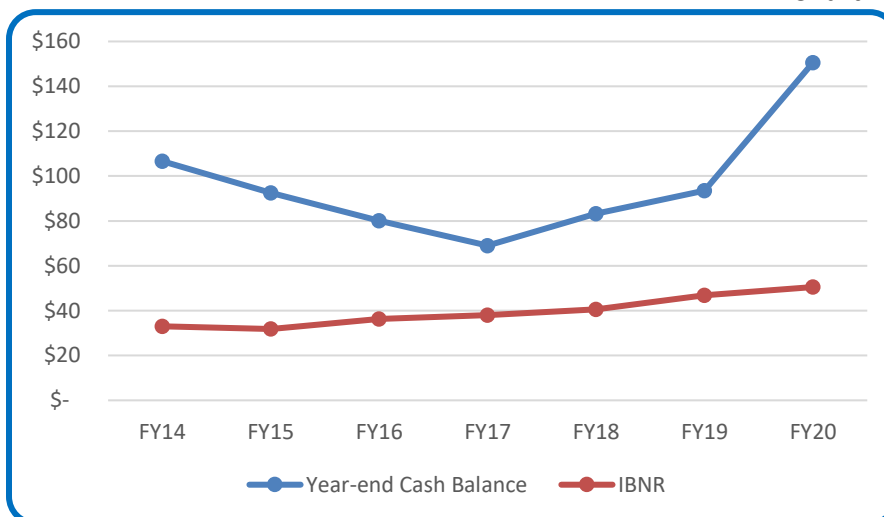


Local Choice Health Care Fund

Health Benefits Services administers The Local Choice (TLC) health benefits program, which provides health benefits and long-term care programs to local government and school jurisdiction employees, dependents, and retirees. Six health plans are available as options for the participating jurisdictions. Human Resource Management contracts with Anthem Blue Cross and Blue Shield and Kaiser Permanente to serve as the administrators of the TLC health plans. In fiscal year 2020, revenues exceeded expenses for the TLC fund for the third consecutive year. As shown in Chart 2 below, the year-end cash balance has consistently exceeded IBNR.

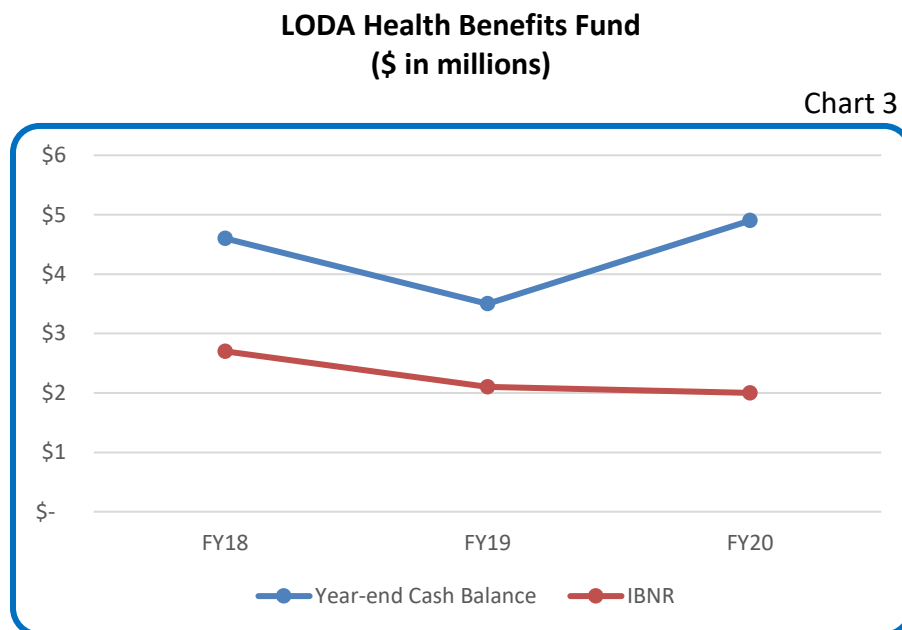
The Local Choice Health Care Fund (\$ in millions)

Chart 2



Virginia Line of Duty Act Fund

The Virginia Line of Duty Act (LODA), established under § 9.1-400 of the Code of Virginia, provides benefits to eligible family members of eligible employees and volunteers killed in the line of duty, and to those eligible employees and volunteers disabled in the line of duty and their eligible family members. The Virginia Retirement System (VRS) is responsible for making all eligibility determinations and issuing benefit payments on behalf of entities that participate in the LODA Trust Fund administered by VRS. Beginning in fiscal year 2018, Human Resource Management is responsible for administering the LODA Health Benefits Plans. As of June 30, 2020, the cash balance in the LODA benefits fund is \$4.9 million with an estimated IBNR of \$2.0 million. Chart 3 below shows a comparison from fiscal year 2018 through fiscal year 2020.

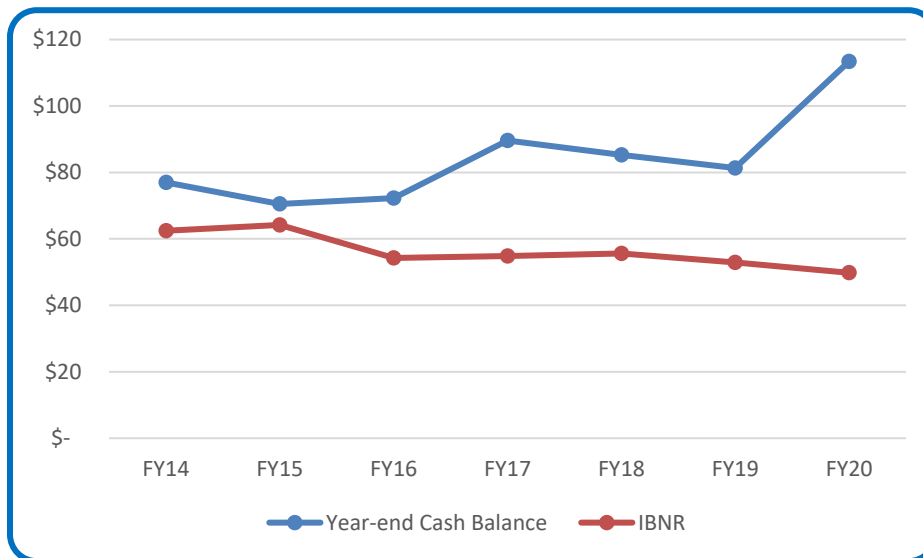


Workers' Compensation Fund

The Office of Workers' Compensation provides direction to state agencies on workers' compensation, workplace safety and loss control, and return to work programs. The Office also determines if the Commonwealth has adequate workers' compensation insurance protection, claims administration, training, and loss control services. The Workers' Compensation Fund provides all state employees with a covered injury sustained in the course and scope of employment with salary and wage protection, medical expenses, and other costs. Human Resource Management contracts with Managed Care Innovations to manage cost containment and claims administration. The Office also contracts with Oliver Wyman to provide an annual actuarial analysis of the Workers' Compensation Fund. Chart 4 below shows that cash balance has increased for the fiscal year 2020.

**Worker's Compensation Fund
(\$ in millions)**

Chart 4



Information Systems

Human Resource Management's Office of Information Technology manages the Commonwealth's personnel management system. This system consists of a database used for processing and managing position, personnel, compensation, and health benefits data. The benefits system is a subsystem of the personnel management system that maintains health benefits records on all eligible state and local employees, employee dependents, and participating retirees.

Human Resource Management manages a time, attendance, and leave system. This system allows employees to electronically record time worked, submit leave requests, and record leave used. Managers are able to electronically approve time worked and leave submissions, and download reports to support absence management. Currently over 60 agencies with over 17,000 end users are using the system.

The Department of Accounts is in the process of developing an integrated component of the Commonwealth's accounting and financial reporting system, which will include functionality to replace Human Resource Management's personnel management; benefits management; and time, attendance, and leave systems. Representatives from Human Resource Management with an expertise in human resources, benefits administration, and the current personnel management system, are working with the Commonwealth's accounting and financial reporting system team to aid in the project design and implementation. The new integrated human resource system is currently in the project testing stage, with phased release dates of March 2021 and October 2021.



Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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December 15, 2020

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Kenneth R. Plum
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of Human Resource Management** for the year ended June 30, 2020. We conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, in support of the Commonwealth's Annual Financial Report Audit. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objective was to evaluate the accuracy of Human Resource Management's financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2020, which includes the Health Insurance Fund, the Local Choice Health Care Fund, the Line of Duty Act Fund, and the Worker's Compensation Fund. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system, in Human Resource Management's accounting records, and in supplemental information and attachments submitted to the Department of Accounts; reviewed the adequacy of Human Resource Management's internal control; tested for compliance with applicable laws, regulations and contract agreements; and reviewed corrective actions of audit findings from the prior year reports.

Audit Scope and Methodology

Management of Human Resource Management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations and contract agreements. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations and contract agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

| | |
|------------------------------|--------------------------------|
| Contract management | Financial reporting |
| Revenues | Claims expenses |
| Actuary reporting | Service organization reporting |
| Information systems security | |

We performed audit tests to determine whether Human Resource Management’s controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, and contract agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of Human Resource Management’s operations. We performed analytical procedures, including budgetary and trend analyses. We also tested details of transactions to achieve our objectives.

A non-statistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Our consideration of internal control over financial reporting was for the limited purpose described in the section “Audit Objectives” and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Conclusions

We found that Human Resource Management properly stated, in all material respects, the amounts recorded and reported in the Commonwealth’s accounting and financial reporting system, in

Human Resource Management's accounting records, and in supplemental information and attachment submissions to the Department of Accounts for inclusion in the Comprehensive Annual Financial Report for the Commonwealth of Virginia.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Human Resource Management has taken adequate corrective action with respect to audit findings reported in the prior year.

Exit Conference and Report Distribution

We discussed this report with management on January 13, 2021. This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

JMR/vks

DEPARTMENT OF HUMAN RESOURCE MANAGEMENT

As of June 30, 2020

Emily Elliott, Director

Rue Collins White, Chief Deputy Director

Gary Johnston, Director
Health Benefits Services

Aubrey Chigwada, Director
Workers' Compensation

Antonio Villafaña
Chief Information Officer

Belchior Mira
Information Security Officer